Audit's NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS
Realty Trust Review

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VALUE GUIDE TO TRUSTS REVIEWED THIS ISSUE

Trust	Port. Yield	-6Mo. Last	Port.Chng.- E.Next	Lever. Ratio	Price	Ann. Yield*	Div. Reinv.	Page
Cabot, C&F Land	13.10%	22%	10%	1.53	$6.38	E31.3%	No	5
First Memphis	12.11	4	0	2.74	5.50	25.5	No	2
Hospital Mtg.	10.83	3	0	0.43	5.13	32.7	No	8
Hotel Investors	11.18	4	15	0.73	7.50	27.3	Yes	3
ICM Realty	10.40	17	12	0.32	9.50	19.4	No	7
Larwin Realty	9.59	14	10	0.36	4.25	28.7	No	3
Mtg. Growth	10.42	4	0	0.08	4.00	25.0	No	6
PNB Mtg. & Realty	12.02	10	3	2.26	4.88	20.5	Yes	6
RAM Pacific	11.48	-3	11	0.57	7.13	23.6	No	4
AVERAGES	11.24%	8%	7%	1.00		26.0%		

*Based on annualized latest qtr. E-Based on estimated $0.50 for Aug. qtr.

These three measures are selected to aid investors. Averages for the measures are shown so each trust may be compared to the average. Portfolio yield is a general measure of risk to the investor, with highest yield typically the riskiest for mortgage trusts. This connotation does not apply to equity trusts since manner of purchase and lease terms can cause wide variations. Changes in funded portfolio indicate relative dynamism of increases in earning assets, although holdings of equity trusts typically will increase much more slowly than mortgage trusts. Leverage ratio indicates a trust's ability to obtain external non-convertible funds, although recent financings or policy decisions may lower this ratio temporarily. Leverage is the ratio of all non-convertible debt to the trust's capital (equity plus convertibles plus subordinated debt). Ratios above 3.0 are rare and may portend capital financing. NE-No estimate.

Trusts with dividend reinvestment plans for shareholders are indicated above. Further information is available from the trusts themselves. Statistical summaries for each trust reviewed show the trust's operating record for the four latest quarters, including ranges for share prices and dividend yields. Price ranges are those for calendar quarters. Where calendar quarters and a trust's interim do not coincide, prices are shown for the calendar quarter covering two months of the trust interim.

LONG-TERM SPECIALITY AND LAND TRUSTS PROVIDE SOME INTERESTING VALUES

The trusts reviewed this issue are largely specialists, either in long-term mortgage or land purchase/leasebacks, and while none are immune to the real estate industry's money problems, several have come this far with minimal damage. Thus they are especially interesting to examine closely because some may be among recovery leaders when money rates ease and real estate markets return to health.

Because most of their investments are long-term in nature, portfolio yield averaging 11.24% is among the lowest of any group reviewed in recent months. This has eroded earnings of some trusts not experiencing significant portfolio problems, especially since some trusts were caught with large exposures to money market rates (i.e., more of total funds floated with short-term rates than did their investments). Thus the rate squeeze hit First Memphis Realty, Hotel Investors, PNB Mtg. & Realty, and Realty & Mtg. of the Pacific especially hard (the match-up of floating rate portfolio and fund percentages is shown on page 2). Fund imbalances are two-sided however and with new indications the Federal Reserve Board may be easing credit slightly, earnings of these trusts could be boosted nicely by lower interest rates.

All trusts reviewed also have maintained quarterly dividends to date and their

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FIVE KEY RATIOS

	Loss* Res.	Non-earn. Inv.#	Exp. Ratio#	-Floating Port.	Rate- Funds
Cabot, C&F Land	0.20%	10.6%	1.69%	24%	32%
First Memphis	0.57	None	1.26	33	72
Hospital Mtg.	0.90	12.1	1.74	NA	30
Hotel Investors	1.75	4.0	1.20	7	37
ICM Realty	3.66	15.5	1.21	12	24
Larwin Realty	0.83	7.2	1.67	28	27
Mtg. Growth	0.67	3.3	1.60	10	7
PNB Mtg. & Rlty.	0.45	5.3	1.22	45	60
RAM Pacific	0.32	None	1.42	12	36
AVERAGES	1.04%	6.4%	1.45%	21%	36%

*Based on mtg. investments except ICM which includes land leasebacks. #Based on gross portfolio.

financial conditions indicate most will be able to escape the banking industry's latest snare for trusts, the requirement of paying only annual dividends out of audited earnings. (Since our report on this trend in RTR Aug. 26 Great American Mtg. has been tied up in an annual dividend agreement and Barnett Mtg. says it expects to pay dividends only yearly. First Virginia Mtg. trustees are considering the annual dividend plan, haven't yet adopted it.)

Finally, most of this group have come this far without significant problem loans and two, First Memphis Realty and RAMPAC, still have no serious problem loans. Three others, Mortgage Growth, Hotel Investors, and PNB Mtg. & Realty, have relatively low levels of non-earning investments and Larwin Realty at 7.2% is about the industry average. But statistical evaluation of problem loans can be misleading, as we point out in our review of ICM Realty, whose 15.5% of non-earning assets is the group's highest. The largest part of ICM's problems should be restored to earning status soon and thus the trust has special recovery appeal. Cabot, Cabot, & Forbes Land Trust, having sidetracked its attempted takeover of ICM, is moving aggressively to clean up festering problems even though this will reduce reported earnings near-term. (The third land trust, Property Capital Trust, was reviewed March 11).

As in recent months, we would not be hasty in making commitments in these trusts until improvement in money and real estate markets is well established. First Memphis and ICM Realty appear to have the strongest long-term recovery potentials.

FIRST MEMPHIS REALTY TRUST (6--OTC-FMEMS) FY Nov. 30

Quar.	Port.	Port. Yld.	Cap. Ret.	EPS Prim.	Div.	-Price range-	-Yld. range-
8/73	$63.4M	12.07%	11.48%	$0.50	$0.50	$21.25-19.25	10.4-9.4%
11/73	69.7	11.95	10.59	0.47	0.47	20.50-15.75	11.9-9.2
2/74	70.7	11.37	9.32	0.41	0.41	17.50-15.88	10.3-9.4
5/74	72.3	12.11	8.02	0.35	0.35	16.00-9.75	14.4-8.8

Portfolio dynamics: In the latest six months, fundings increased 4%. Level fundings are expected the next six months. Trust is presently not making new commitments. The portfolio is 48% construction, 21% long term mortgages, 19% land and land development, 5% investment in real estate, 4% standing loans and 3% construction/long term loans. By type of project, the portfolio is 19% land and land development, 17% each apartments and condominium and single family dwellings, 15% hotels and motels, 12% each industrial buildings and office buildings and 8% commercial buildings and shopping centers. Investments are located in 17 states with concentrations in Tennessee (30%), Florida (17%), and Texas (15%). Although about 65% of short term loans float with market rates only about 45% of short-term mortgages are presently floating due to usury laws (10% in Tenn.). Thus some 33% of the entire portfolio floats with market rates. Trust does not have any foreclosed properties or any non-accruing loans of significant size.

Financing: Trust is funded 73% by non-convertible debt and 27% by capital. Capital of $20.9M is all equity with 1.16M shares. Debt of $57.17M is 65% short-term bank loans, 34% commercial paper and 1% mortgage. Trust presently has $57 million in bank lines with nine banks. Trust recently obtained a $2 million increase in a bank line and obtained a $10 million revolving credit agreement for five years with Bankers Trust. Commercial paper is sold through First National Bank of Memphis with a P-2 rating from Moody's. Commercial paper sale has been poor lately and Trust is now down to about $10 million in paper. Warrants will be extended for three years to Feb. 1, 1978. Sponsor: The one bank holding company of First National Bank of Memphis. Results and outlook: High interest caused the recent profit decline. If

rates remain lofty, earnings will continue hurt by the large negative spread. Capability of trust management is shown by the lack of significant problem investments. Shares are down a little more than 50% from Jan. 1, 1974 and are selling at about 60% below book value. Dividend payments, but at lower levels, appear forthcoming. Shares have investment appeal on a longer term basis and should perform better than the group average. (VCK)

(THE) HOTEL INVESTORS (7½--ASE-HOT) FY Aug. 31

Quar.	Port.	Port. Yld.	Cap. Ret.	EPS Prim.	Div.	Price range	Yld. range
8/73	$69.9M	11.47%	10.37%	$0.57	$0.52	$20.50-19.00	11.0-10.2%
11/73	72.2	11.37	9.47	0.50	0.52	20.00-10.75	19.4-10.4
2/74	73.7	11.15	8.27	0.40	0.52	15.25-11.00	18.9-13.6
5/74	74.8	11.18	8.45	0.40	0.52	11.75- 7.63	27.3-17.7

Portfolio dynamics: In the past six months the portfolio increased 4% and should reach $100M in the next twelve months, a 34% gain. The increase will come from funding present commitments as no new commitments are being made. In the next six months, we expect about a 15% gain in fundings. Investments at May 31 were 41% long-term first mtg.; 29% hotel ownership; 10% wraparounds due within five years; 7% land purchase/lease agreements; 4% each long term wraparound and property in process of foreclosure; 3% construction and 2% first mtg. due within two years. The trust specializes in hotels/ motels and investments are located in 20 states with some concentration in Texas and Mass. About 7% of the portfolio floats with market rates. A $3.1 million property in foreclosure process is the only non-earning asset, equal to 4% of the portfolio. The property is a Hilton Inn in Victorville, Calif. The company that owns an 80% equity ownership in the hotel went into Chapter X bankruptcy. Hotel, which owns the remaining 20%, states that rents and interest payments were current to May 31, 1974. Hotel also owns the land under the hotel. Management does not expect any loss of principal. In June 1974 trust bought and leased back three Ramada Inns in Missouri for $5.9M cash, $6.1M mortgages assumed, and the trust's interest in Sheraton Olympic Villas Hotel in Orlando, Florida. Olympic Villas has been hurt by overbuilding and the energy shortage; trust received an option (valued at $800T) to repurchase a 50% interest in the hotel.

Financing: Trust is funded 58% by capital and 42% by non-convertible debt. Capital of $45.5M is 64% in equity with 1.54M shares, 23% in 7½% convertible subor. debentures and 13% in 7 3/4% convertible subor. debentures. Debt of $33.1M is 75% in 7 year unsecured notes payable, 13% in short-term bank loans and 12% in mtg. Trust has bank lines of $10M with four banks. Some 37% of total funds float with market rates. Sponsor: The adviser, Hotel Advisors, Inc., is partly owned by Marriott Corp. and Hilton Hotels Corp. Results & outlook: The latest two quarters were hurt by higher interest costs and a larger addition to the loss reserve. Continued high interest costs will further pressure results due to the negative spread. Problem loans appear to be manageable and under control. Shares are down about 35% from Jan. 1 and sell about 60% below book value. Trust shares have limited near-term appeal considering the risk of specialized property at the mercy of current economic and travel pressures. (VCK)

LARWIN REALTY & MORTGAGE TRUST (4 5/8--ASE-LRM) FY Nov. 30

Quar.	Port.	Port.Yld.	Cap.Ret.	EPS Prim.	Div.	Price range	Yld. range
8/73	$73.3M	9.75%	7.19%	$0.33	$0.33	$12.75-10.63	9.5-7.9%
11/73	77.5	9.88	7.37	0.34	0.34	14.63- 8.00	10.8-5.9
2/74	84.6	10.10	7.45	0.35	0.35	11.00- 8.63	7.9-6.2
5/74	88.1	9.59	6.54	0.30	0.30	9.50- 6.13	7.8-5.0

Portfolio dynamics: The May portfolio was 70% mtg., 25% GNMA mtg.-backed securities and 5% property acquired through foreclosure. The breakdown for the mtg. and property section was 48% long-term, 36% construction, 6% each land devel. and property acquired through foreclosure and 4% wraparound. This section by project type was: 40% office buildings, 21% apartments, 16% industrial, 11% commercial, 6% land

devel., 5% shopping centers and 1% condominiums. Investments are located in fourteen states and P.R. with concentrations in Ill. (33%) and Texas (25%). Fundings grew 14% over the past six months. Management expects portfolio growth over the next six months as existing commitments are funded. No new commitments are being made. Some 28% of the entire portfolio floats with market sales. Trust has four problem investments totaling $6.36M or 7.2% of the May portfolio. Two for $4.08M are property acquired through foreclosure. One is 26% participation in a 963-unit apartment project in Pasadena, Texas. Trust has disbursed $2.72M on this property which is 100% complete and 79% rented as of June 15. Some return is being obtained. The other foreclosed property is a completed office building in Odessa, Tex. Trust investment here is $1.36M. The building is 90% rented as of June 15 and providing a return. Problem investments include a $1.83M first long-term mtg. on a completed Ramada Inn in Ocoee, Fla., near Disney World, experiencing low occupancy. This loan is being foreclosed due to delinquency of interest payments. The last problem loan is a $452T first mtg. constr. loan on a shopping center in Laredo, Texas. The project is 79% complete, 100% pre-leased and 53% occupied, including a major AAA anchor tenant. The project is experiencing cost overruns and the trust, through the lead lender, is foreclosing.

Financing: Trust is funded 73% by capital and 27% by non-convertible debt. Capital of $67.2M is all equity with 3.61M shares. Debt of $24.4M is 61% term loan and 39% short-term bank loans. Some 27% of funds float with market rates. Trust has a $15M term loan with two banks. It also has $20M in bank lines with 5 banks. Management feels it has sufficient financing to fund present commitments. Sponsor: CNA Financial Corp., casualty insurance and homebuilding. Control of CNA is being sought by Loews Corp. Results & outlook: High interest costs and problem investments held back earnings in the May qtr. Lower portfolio yield also hurt. Earnings in the September qtr. should hold at the May level but high rates will prevent growth. Shares are down about 40% from Jan. 1 and sell about 70% below book value. Handling of problem investments has been good. Shares have recovery potential when earning power from assets is better established and uncertainty of sponsor's control is clarified. (VCK)

REALTY AND MORTGAGE INVESTORS OF THE PACIFIC (7 1/8--OTC-RPACS) FY Nov. 30

Quar.	Port.	Port.Yld.	Cap.Ret.	EPS Prim.	Div.	-Price range-	-Yld. range-
8/73	$73.2M	10.34%	8.70%	$0.45	$0.44	$18.13-15.63	11.3-9.7%
11/73	76.5	10.91	8.76	0.45	0.45	17.38-11.38	15.8-10.4
2/74	80.2	11.26	8.80	0.45	0.45	15.88-12.00	15.0-11.3
5/74	74.3	11.48	8.50	0.42	0.42	13.75- 9.00	18.7-12.2

Portfolio dynamics: The portfolio declined 3% the past six months and is expected by management to be about $82.5M by November, 1974, an 11% gain. Management estimates by May, 1975 the portfolio will reach $92.0M, a 24% increase from this May. Growth will come from funding existing commitments since new commitments are very limited and selective. There will be a gradual increase in the construction and intermediate portion. The present portfolio is 32% each construction and long-term mtg., 21% intermediate term mtg., 11% land purchase leasebacks and 4% partnerships. By project type construction loans are 41% apartments, 15% land, 14% office buildings, 11% each hotels/motels and other, 7% industrial and 1% shopping centers. Intermediate and long-term mtg. by type are 37% hotels/motels, 21% office buildings, 20% apartments, 8% industrial, 7% other, 4% shopping centers and 3% land. Investments are located in 9 states, Guam, Fiji and Indonesia with concentration in Calif. and Hawaii. Some 14.4% of the mtg. portfolio floats with market rates so that 12.3% of the portfolio floats. Trust has no foreclosed properties and no loans on which interest accrual has been halted.

Financing: Trust is funded 64% by capital and 36% by non-convertible debt. Capital of $47.1M is 75% in equity with 1.89M shares and 25% in 6 3/4% convertible subor. debentures. Debt of $26.8M is 94% in short-term bank loans and 6% in commercial paper. Some 36% of funds float with market rates. Trust has bank lines of

$44M with four banks. Its commercial paper is rated P-1 (LOC) by Moody's and sold through A. G. Becker. Sponsor: Bank of Hawaii, largest commercial bank in the central Pacific. Results & outlook: High interest costs accounted for the earnings decline. Continued high rates will hurt near-term results despite higher fundings and lack of non-earning assets. Shares are down 30% from the beginning of the year and are now selling at about 50% below book value. The shares have investment appeal based on a solid portfolio emanating from a well entrenched regional position. Heavy reliance, however, on an isolated geographic area may carry risks in a period when transportation costs are rising. (VCK)

CABOT, CABOT & FORBES LAND TRUST (7¼--NYSE-CFT) FY May 31

Quar.	Port.	Port.Yld.	Cap.Ret.	EPS Prim.	Div.	-Price range-	-Yld.range-
8/73	$155.3M	12.22%	12.75%	$0.63	$0.63	$29.63-23.50	10.7-8.5%
11/73	167.1	13.24	13.10	0.65	0.65	29.50-23.00	11.3-8.8
2/74	192.2	13.16	13.27	0.66	0.66	26.88-21.63	12.2-9.8
5/74	204.2	13.10	13.37	0.67	0.67	22.50-13.00	20.3-11.7

Note: Trust expects to report approx. $0.50/sh. earnings for August qtr.

Portfolio dynamics: Holdings gained 22% over the past six months but some slowing of fundings is expected for the coming half-year and year. Holdings are 50½% land purchase/leasebacks and related mortgage loans, 22% short-term development loans, 15% mtgs. which may convert to equities, 9% long-term mtgs., 2% long-term devel. loans and 1½% short-term mtgs. By property type holdings are 50% residential (including 15½% garden apartments, 12½% high-rise, 15½% condominiums), 25½% office buildings, 10% shopping centers, 7% industrial, 7% hotel/motel and agricultural. Largest holdings are in California, 16½%; Florida, 12½%; New York, 11½%; and Texas, 8%. Trust specializes in land purchase/leasebacks but holdings have become increasingly diversified into mtgs. Land purchase/leasebacks are in effect preferred equity holdings in which the trust buys land beneath income producing buildings and leases it back to the owner for a fixed land rent. Thus about 70% of CFT holdings are completed properties. Most CFT leases let it share in rental increases and such participations added $246T (about $0.08/sh.) to FY 1974 income. As of Aug. 22 trust ceased accruing interest on $22.1M loans (10.6% of investments) and said another $10.5M loan (5% of holdings) on the Benedict Canyon residential development tract near Beverly Hills, Cal. was "particularly difficult to predict at this time." Non-earning investments include $10.6M in two loans to Evans & Mitchell Industries, Atlanta developer in Chapter XI bankruptcy proceedings (RTR, Aug. 26), a $3.0M condominium conversion loan in Miami Beach, Fla., and the $5.75M proposed Sailboat Key condominium in Miami. In addition, a $9.0M investment in two Arlington, Va., office buildings, is on a cash basis; CFT acquired buildings in Sept. 1972 when Pomponio Bros. defaulted and subsequently resold them. In February 1974 these buyers resold to a limited partnership, CFT increasing its investment to $9.0M by funding a $1.1M second mtg. and increasing a $7.2M purchase money mtg. to $7.9M and recasting it as a third mtg. under terms guaranteeing the buyers a 4% return. Like many mortgage trusts, CFT continues recognizing rents or interest on delinquent loans when management judges disposition proceeds will exceed investment plus accruals. Such accruals totaled $0.81/sh. in FY 1974, or 31% of the $2.61/sh. reported, including $0.52/sh. from Benedict Canyon (the mtg. does not require current cash interest payments) and $0.22/sh. from the Arlington, Va. buildings.

Financing: Trust capital of $210.1M is 39½% capital and 60½% non-convertible debt. Capital of $83.1M is 71% shareholders' equity with 2.99M shares, 28% in 8.5% senior subor. notes, and 1% in convertibles. Debt of $127.1M is 51% bank borrowings, 20% in 8% senior notes, 4% borrowed under a Eurodollar credit, 24% in bank term loan with maximum 7½% interest thru 1980, and 1% commercial paper. Credit lines appear adequate to meet commitments. Sponsor: Cabot, Cabot & Forbes Co., Boston based industrial and office developer. Proposed merger: Trust has postponed indefinitely further efforts to absorb ICM Realty, another land trust; CFT had received agreement from five bank trust departments holding approx. 56% of ICM shares to exchange their shares

for 0.75 of CFT shares, but fall in CFT share price led banks to decline to complete transaction on original terms. Results & outlook: Trust expects August qtr. earnings of about $0.50/sh. including $0.16/sh. from holdings on which income recognition was subsequently halted, and $0.08/sh. from accrual on Benedict Canyon loan. The decline, blamed mainly on negative interest spreads, breaks a long record of earnings' gains. Continuing non-accruals may lower subsequent quarters, perhaps to $0.25-35/sh., although principal loss is not expected. Sponsor owns 3.6% of shares, indicating solid long-term support. Shares at 64% below book value appear to have speculative recovery potential. (KDC)

MORTGAGE GROWTH INVESTORS (4--ASE-MTG) FY Nov. 30

Quar.	Port.	Port.Yld.	Cap.Ret.	EPS Prim.	Div.	-Price range-	-Yield range-
8/73	$38.3M	10.86%	8.92%	$0.30	$0.30	$12.75-10.50	11.4-9.4%
11/73	47.0	11.11	7.41	0.30	0.30	13.50- 6.75	17.8-8.9
2/74	46.6	10.97	9.00	0.30	0.30	10.38- 7.63	15.7-11.6
5/74	48.8	10.42	7.91	0.25	0.25	7.75- 4.50	22.2-12.9

Portfolio dynamics: Holdings rose a modest 4% the past six months, reflecting trust decision to halt new commitments last October. Commitments are relatively low and little growth is foreseen under present conditions. Holdings at 5/74 were 36% short-term mortgages, 40% long-term mortgages, 18% land purchase/leasebacks, and 7% shares in other real estate trusts. REIT share holdings, stated at cost, have declined sharply in price and trust currently has approx. $0.94/sh. in unrealized loss. Interest recognition was halted about a year ago on $1.65M Laurel, Md. tract whose development was halted by sewer moratoriums; trust hopes to get partial development started soon.

Financing: Total funds of $50.3M are 92% capital and 8% debt. Capital of $46.5M is 72% shareholders' equity and the rest 7.75% convertibles. Debt is nearly all bank loans. Leverage ratios are modest and some near-term maturities of mortgages indicate liquidity may be improved in coming quarters. Sponsor:Sonnenblick-Goldman Corp., national mortgage broker and sponsor of North American Mtg. Inv., a short-term trust. Results & outlook: Trust is in holding pattern until real estate conditions improve. Dividend reductions on REIT shares cost trust $0.02½/sh. during May qtr.; interest ceilings in portfolio caused rest. Some modest earnings declines may be ahead, but trust is not under financing pressure and unleveraged holdings should provide expansion base once real estate and credit conditions improve. (KDC)

PNB MORTGAGE & REALTY INVESTORS (4 7/8-NYSE-PNI) FY Sept. 30

Quar.	Port.	Port.Yld.	Cap.Ret.	EPS Prim.	Div.	-Price range-	-Yld. range-
9/73	$129.3M	13.26%	11.96M	$0.53	$0.54	$22.00-18.25	11.8-9.8%
12/73	130.5	13.28	11.66	0.52	0.53	22.88-15.25	13.9-9.3
3/74	139.5	12.23	10.17	0.44	0.46	20.00-14.00	13.1-9.2
6/74	143.6	12.02	4.63	0.22	0.25	15.50- 5.25	19.0-6.4

Portfolio dynamics: After a 10% gain over the past two quarters, fundings are likely to remain fairly level the next few quarters. Holdings at 6/74 were 86% mortgages (38% constr. and devel. loans, 30% permanent first mtgs., 12% other mtgs., and 6% junior mtgs.) and 14% property (13% real estate, 0.9% equity in a partnership and 0.3% property acquired through foreclosure). Largest real estate holding is the Chestnut Hill Village and Market Square with 827 apartments and 75,000 sq. ft. of retail space in Philadelphia. Mtg. holdings are 25% Penn., 14% Ohio, 10% Calif.; about half are apartments and one-fourth condominiums. Non-earning investments of $6.6M (or 5.3% of holdings) at June 30 included $3.8M funded on a nearly complete condominium construction loan in Ocean City, Md., being foreclosed; a $1.6M land and development loan on a large planned development (Earth City) near St. Louis being delayed by lawsuits, and a $1.2M apartment construction loan near Philadelphia.

Financing: Total funds of $149.0M are 31% shareholders' equity (with 2.44M shares) and 71% non-convertible debt. Debt of $103.3M is 48% commercial paper, 29% in a revolv-

ing credit with Mellon Bank, Pittsburgh, and term loan with Continental Illinois Nat. Bank, Chicago; 14% mtgs. on property owned, and 9% in commercial bank loans. About 60% of total funds thus float with money market rates. Sponsor: The one-bank holding for Philadelphia Nat. Bank and its subsidiary Colonial Mortgage Service Co. Results & outlook: June qtr. earnings were halved to $0.22/sh. by a special addition to the loss reserve ($0.07/sh. reduction), lower commitment fees ($0.08/sh.), non-earning investments ($0.04/sh.) and higher borrowing costs ($0.03/sh.). Dividends, paid from real estate cash flow, were $0.25. Approach of the year-end audit clouds Sept. qtr. results, although long-term mtgs. and equities provide sound base for recovery once money-market conditions ease. (KDC)

ICM REALTY (9½--ASE-ICM) FY Nov. 30

Quar.	Port.	Port.Yld.	Cap.Ret.	EPS	Div.	-Price range-	-Div. range-
8/73	$67.0M	10.44%	9.41%	$0.49	$0.48	$20.63-18.50	10.38- 9.31%
11/73	65.2	10.97	-10.58	-0.54	0.51	22.50-15.25	13.38- 9.07
2/74	69.2	9.96	9.27	0.46	0.46	16.88-12.75	14.43-10.90
5/74	76.6	10.40	8.90	0.44	0.46	14.88-10.50	17.52-12.37

Portfolio dynamics: Holdings increased 17% over the last six months, not as extraordinary as it looks in perspective of slow, irregular buildup that took place over previous quarters. Growth will taper in the next six months to 10-15% as existing $11M commitments are pretty much funded. Little asset growth is likely beyond fiscal 1974 year end as no new commitments are being made. Most commitments made and being funded are shopping centers. The portfolio is 67% equity type and 33% mortgage type. The equity type is land purchase/leasebacks. Rest of the portfolio (mortgages) was 40% first mortgages on land to be developed and the rest various types of junior mortgages, some on properties with land purchase leasebacks. Mortgage loans are a small part of portfolio strategy designed to impart liquidity and enhance yield when rates are favorable. Often a bridge is provided to longer term financing. Property type was 57% apartments, 22% shopping centers, 10.5% land to be developed, 4% office-apartment-shopping complex, 2.4% motor hotel, 2% office building and 1.6% retirement hotel. Holdings are spread through 22 states. About 10-15% of the portfolio is thought floating with market rates. Investments not producing income or acquired through defaults total $11.9M. Six apartment properties of Walter J. Kassuba, in Chapter XI, account for $9.6M. This situation is getting close to firm, reasonably satisfactory conclusion. Sale of the properties has been contracted and closing is now thought to be only a few weeks off. The properties are being managed by the new buyer. ICM should start receiving payments on some properties before year end. The new purchase arrangement calls for ICM to begin receiving an 8% return instead of the original 10+% and receive junior mortgages in place of the land leasebacks. In three years, its return would get back to the old 10%. Reinstitution would flow to earnings as the properties are on a cash basis. There are three small acquired properties. A new $425T apartment project in Raleigh, N.C. was turned over to a new manager and is 88% occupied. A $573T, 6.5-acre parcel zoned commercial in Pasadena, Tex. is up for sale or lease but will have to be held awhile. A $640T office building in San Antonio, Tex. at breakeven is also up for sale. Management is impressive in taking a strong stance, sale will not be rushed in this market and will be done for cash, not paper. During May trust reacquired $4.99M of GNMA mortgage backed securities under a repurchase agreement and immediately wrote them down by a $200T direct charge to the loss reserve.

Financing: Trust is funded 76% capital and 24% debt. Capital of $59.3M is all equity with 3.01M shares. Debt of $18.9M is 44% short-term bank loans, 32% bank loans under a revolving credit and 24% mortgage notes. About 24% of all funds float with market rates. Revolving credit is good for $20M at ¼% over prime. Some $14M is unused under the revolver. Sponsor: Independent, Investors Central Management, manager of mortgage portfolios for pension funds. Results & outlook: First half results held to reasonable levels considering the non-earning status of $9.6M Kassuba properties. Overages on leasebacks were up in the half and a $0.037/sh. capital gain helped the

second quarter. The second half will reflect negative spread on funds borrowed to reacquire the GNMA securities, legal fees contesting the proposed takeover by Cabot, Cabot & Forbes Land Trust and higher interest costs even on the small debt. The third quarter rate may be somewhat below the first half. The fourth quarter, however, should see debt peak as new fundings top out and repayments begin. Additionally, the ex-Kassuba properties should start recontributing. Prospects for renewed returns at earlier levels appear among best assured of trusts. The shares, carrying an average valuation and above-average profit assurance, are attractive for income and recovery. (BS)

HOSPITAL MORTGAGE GROUP (5 1/8--ASE-HMG) FY Feb. 28/29

Quar.	Port.	Port.Yld.	Cap.Ret.	EPS Prim.	Div.	-Price range-	-Yld.range-
8/73	$35.5M	12.60%	9.36%	$0.54	$0.55	$20.00-17.38	12.7-11.0%
11/73	35.6	11.58	8.32	0.48	0.52	19.50-11.13	18.7-10.7
2/74	35.7	11.89	7.32	0.42	0.47	15.25-11.25	16.7-12.3
5/74	36.7	10.83	7.36	0.42	0.42	12.38- 5.88	28.6-13.6

Portfolio dynamics: The portfolio, which had a 3% gain in the past six months, was 54% construction, 28% land development, 13% permanent, 4% standing and 1% land loans. Investments by type of property were 37% hospital and medical facilities, 29% land and land devel., 28% residential, 4% shopping centers and 2% commercial. The portfolio direction is changing away from hospital orientation to broader real estate, accent will be more short term rather than long and geographic diversification is increasing. A name change from the hospital title is contemplated. The trust began its August quarter with $10.4M in unfunded commitments indicating some further growth when financing can be arraged. The trust has gone through some management changes over time and is therefore in flux regarding personnel recruitment. There are four problem loans as last reported totalling $4.43M. Foreclosure was begun on a shopping center property in Alexandria, La. in which the trust has a $1.5M participation. Independence Mortgage is the lead lender here. Foreclosure was begun on a $435T land development loan in Osceola County, Fla. The trust is a $2M participant in a proposed 1,120-unit condominium (Sailboat Key) in Miami, Fla. on which foreclosure was just begun. This project has encountered serious delays including temporary revocation of its building permit.

Financing: Funds are 70% capital, 30% debt. Capital of $27M is all equity with 1.18M shares. Debt of $11.7M is all short-term bank notes. Some 30% of funds float. Sponsor: Adviser is jointly owned by a medical services firm and Mortgage Corp. of Amer., a mortgage banker. Results and outlook: Exposure to interest rate squeeze is relatively small but still a growing factor that will make itself felt more. Aside from continuing diminishment from problem loans, earnings may hold up comparatively well among short-term trusts because of smaller borrowings. The shares are well deflated and perhaps all adversities are discounted but are uninteresting at this juncture. (BS)

NEWS BRIEFS: FIRST WISCONSIN'S FINANCIALS; BARNETT MTG. TO PAY ANNUAL DIVIDEND

Barnett Mortgage Trust just announced it will probably report a loss for the first six months to end Sept. 30, 1974. This comes after the trust earned $934T, or $0.43/sh. primary in the June quarter. Moreover, the trust will incur a significant loss for all fiscal 1975 (March) unless conditions improve more rapidly than expected. No interim dividends are likely to be paid for the rest of the year. Trustees are considering a substantial addition to the loss reserve and nonaccrual investments will be greatly increased.

First Wisconsin Mortgage Trust finally released 1973 statements in the form of a 10-K filed with the Securities and Exchange Commission. These were unaudited as the accountants have yet to complete their report. A $2.3M loss was reported for 1973. Much of the $195M portfolio was in difficulty as 29% ($56M) was in nonaccrual and 62% ($121M) was on a watch list, that is failing to meet criteria of continued soundness. A liquidity problem may develop because interest and rent collection may be delayed well beyond due dates.

THE OUTLOOK FOR MORTGAGE REITS

By David Scribner

Note: We are pleased to present this analysis of current mortgage REIT problems and the outlook prepared by David Scribner. Mr. Scribner is both an appraiser and real estate counselor, member of the American Society of Real Estate Counselors and American Institute of Real Estate Appraisers, a former president of the National Association of Real Estate Investment Trusts and a trustee of CleveTrust Realty Investors. As such he speaks from a lifetime of experience in real estate.

It is no news that the REIT industry grew from 50 trusts with $1 billion in assets in 1968 to 200 trusts with $20 billion in 1973. It is news, however, that in the three years 1970-1973 inclusive construction and development loans grew from about $17 billion to $57 billion when there were already signs of over-building in many parts of the country and in many categories of improvements. While this great growth (235%) of construction and development was taking place the commitments of commercial banks in this field increased from $7.8 billion to $21.26 billion (an increase of 175%). The REIT's, not to be outdone, increased their share of this high-yield market from $1.78 billion to $12.23 billion or 585%.

The facts are that a slow up in the rate of absorption of space preceded the great expansion of credit and continued to be more manifest as the expansion continued. In spite of these ominous trends, one of the largest mortgage trusts insisted on growing until it reached the point where it had to put out $1 million each day to stay even. This put tremendous pressure on the men in the field. Today this trust is in very serious trouble.

The difficulty of the speculative developers and builders to hang on until their projects were rented or purchased was further complicated by the increased cost of hanging on because of rising interest on borrowed funds on the one hand, and the higher costs of labor and materials on the other. Delays in material deliveries became common place and the speculators accelerated their defaults to the lenders.

It was the first time that many of the people who administered the mortgage REIT's have been confronted with the dilemma of choosing between foreclosing or restructuring deals. On the one hand foreclosing meant finishing the construction and renting or selling the product; on the other, restructuring meant increasing the obligations carried by the product to the point where they approached, if not exceeded, the fair market value.

This non-liquid debt is already adding to the depression oriented economic trends. In the face of these downward pressures there are REITs which have increased their earnings and have skillfully avoided the tentacles of non-earning assets. Hunger for business, reaching for higher yields and refusing to balance yields with risks, has led too many trusts into the quagmire of lack of mobility to take protective action and dried up sources of support from the investment field. These trusts are faced with the problem of liquidation of properties or obligations against properties at less than market value, thus evaporating the equity value above book value or seeking court protection from creditors, or both.

The survivors among the mortgage trusts probably will include those which currently have all or most of their investments in an earning position. Consolidations and mergers of trust assets under the stronger management teams would strengthen the industry. A shift of methods of compensation of the management of trusts to a basis calculated on trust earnings rather than the size of the investment portfolio would tend to reduce the temptations offered by the high risk investments. This action must be accompanied by a conscious effort on the part of management to get out and stay out of the acquisition, development and construction loan package.

During the past five years this has been an easy way for speculative builders to borrow 100% of the pro-forma costs of a project. This was done on the theory that the actual cost would be approximately 75% of the fair market value when completed, and rented or sold to the consumer.

It used to be axiomatic that the foreclosure of a mortgage was one means of purchasing a property at less than fair market value, but trust investment policy has eliminated this in many cases. This author has seen cases where the costs of management have increased to the point where profits have become marginal even at high occupancy rates.

In the competitive world of the rental market the cost of debt service on top of the increasing costs of management has created an over-mortgaged situation in many cases. The fact that in many cases the speculator had no monetary investment of his own in the project led to the creation of many economically unsound ventures. As the factors of higher costs from all causes came into being, the so-called owner, whether it be a single project corporation or a syndicate type partnership could either dig up some real investment equity or work out a greater investment on the part of the holder of the mortgage or walk away from the project leaving it to the mortgagor. If the mortgage lender had the skill he would have been better off to build the project himself or with a partner in a joint venture.

But mortgage trust management seldom has the skill or the temperament to buy, develop and build. The management is usually made up of people who can analyze a project on paper. To feel safer they frequently require the borrower to provide an appraisal of the fair market value of the project, when completed. The basic assumptions upon which the appraisal is made are seldom read, but the opinion of value is accepted as gospel.

For the most part, there is one trustee of the "insider" category who knows the real estate business. In addition to running the daily business of the trust, he can probably be completely familiar with about 20 investments. For the rest he relies on junior members of his staff. These people have knowledge of business techniques. They are often graduates of prestigious universities and have degrees in business management, some have master's degrees, some have law degrees. Almost to a man they do not know how to inspect a property. If 80-90% of the vacancies are caused by turnover of tenants, they don't know it. They lack the ability to walk into a hotel or motel and size up the operator or the back stairs personnel. The unannounced visit to properties is fundamental to the management business. In the case of the investment of equity in property a quarterly inspection is the minimum. The same is true of mortgaged premises which are falling off in earnings. Inspections two to three times a year are probably enough for mortgaged properties that appear to be sound.

In the case of a trust whose assets were recently examined by this author, several properties were found to be under maintained. These properties had not been axamined in over a year. In too many cases there is no reserve for the replacement of short lived items.

Reliance upon architects and engineers for the quality production of contractors and timing of phases of completion is not enough for development and construction projects. There must be personal involvement on the part of the field parties of trust managements. They must be the first to know about changes in the attitude of local government, the contemplation of new highway patterns, the involvement of contractors and subcontractors in other jobs. These kinds of people are so few in trust management as to be rare birds, nearing extinction. They are vital for the day to day operation of a trust.

The fiduciary responsibility of the trust's management requires that inspections by the trustees be undertaken. The "outside" trustees should be familiar with the problem investments and the potential problems.

Real estate should be seen, touched, smelled, and understood. Good local building superintendants are essential. The Ma and Pa type operations are still with us and offer real competition to the absentee-management type of operation. The sooner trust managements get back to the fundamental principles of the real estate business the better for the investors. They deserve at least this if the word "trustee" is to be meaningful.

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